M·E·R·L·I·N

ANNUAL REPORT
1999-2000

Manitoba • Education • Research • Learning • Information • Networks

Contents

Letter from the Minister 1

Letter from the Chair of the Advisory Board 2

Message from the Chief Operating Officer 3

Report Card 4

Advisory Board 5

Agency Profile 6

Organizational Structure 9

Performance Measures 10

Performance Targets and Accomplishments 11

Financial Statement Analysis 19

Financial Statements 20

Client Survey Summary 33

Letter from the Minister

MINISTER OF EDUCATION AND TRAINING

Room 168
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable Peter Liba
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

Your Honour:

I have the privilege of presenting the Manitoba Education Research and Learning Information Networks (MERLIN) Annual Report for the operational year ending March 31, 2000.

Yours sincerely,

Honourable Drew Caldwell

Letter from the Chair of the Advisory Board

Manitoba

Education and Training

Council on Learning Technologies

312 – 1181 Portage Avenue
Winnipeg, MB R3G 0T3
CANADA

Phone (204) 945-0239
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August 21, 2000

The Honourable Drew Caldwell
Minister of Education and Training
Room 168 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Caldwell:

It is with great pleasure that I submit, on behalf of MERLIN's Advisory Board, the fifth Annual Report of the Manitoba Education, Research and Learning Information Networks (MERLIN) special operating Agency for the year ending March 31, 2000.

MERLIN's fifth year was one of great challenges and opportunities. One of the many milestones achieved is cost-recovery. The performance of the organization exceeded its business plan projections to end the year in a positive financial position. This is a milestone achievement.

Savings to the education community totaled to $910,494. This is impressive due to the fact that the Agency had a 9-month fiscal year versus the traditional 12-month due to a change in its fiscal reporting time line.

The Agency's diverse service offerings support the education community across the province. From the delivery of programs via audio and video conferencing to providing expert advice and services on the most complex technology implementations, the Agency is unique in its approach and focus on finding the best solution to meet its clients needs. The products and services of the Agency have matured over the past 5 years while at the same time adapting to the constant change in technology and needs of education.

After reviewing the 1999/2000 operations and achievements, the Advisory Board is impressed by the commitment and dedication exhibited by the Agency's management and staff, and are very pleased with the continued success of MERLIN.

Yours sincerely,

Bill Schaffer,
Chair
Council on Learning Technologies

Message from the Chief Operating Officer

MERLIN has reached its 5th year of operations as a special operating agency. Many challenges have been faced since we began operations in 1995 with the goal of building a valued enterprise and developing a series of service offerings and client base. Through the dedication, flexibility and commitment of staff, MERLIN has matured to be an organization whose efforts provide a positive contribution to the education community.

Our diversity and flexibility in service offerings are a unique asset to the education community. Our services include assisting in the development of a technology plan, implementing the plan, and equipment provision and configuration. We can also provide audio and video conferencing to enhance or complement communication.

A number of major accomplishments have been achieved in the past year. The Canada/Manitoba Infrastructure Works Project has been concluded. This has seen the development and implementation of various systems and networks to support the remote delivery of courses. As well, the year 2000 threat saw schools, institutions and MERLIN take significant measures to address computer date issues. Manitoba met this challenge with no difficulties. As an Agency, MERLIN has exceeded its planned financial targets, showing a positive return for the first time since its inception. This represents a turning point for the Agency as we move into the new millenium.

I sincerely appreciate the hard work and dedication that my staff have demonstrated over the year towards assisting and improving the technology infrastructures of schools and institutions as well as to MERLIN itself. As well, I would also like to thank our stakeholders, the Advisory Board, the Department of Education and Training, the SOA Coordinator, and our clients for their support.

D. R. KERR
Chief Operating Officer
MERLIN

Report Card

NAME: M.E.R.L.I.N. **YEAR: JULY 1, 1999 TO MARCH 31, 2000**

Product/Service	Grade	Comments
Internet:		
School Accounts	B+	9% decrease from last year
Individual Accounts	A	9% increase from last year
MSEN Accounts	A	8% increase from last year
Modem Connect Hours	A	An average of 36,128 hours per month versus last year's 32,869 per month - 9% increase
Help line Calls	B	2050 help calls assisted
Direct connects	B	49% of schools have direct connects through us
Consulting Services & Technology Systems Planning	B-	Provided technology plans to various school divisions and organizations
Desktop Support	B+	Real time and flexible supports were provided to a number of clients
Brokering	B	MediaSmith Agreement; Corel & Microsoft Agreements
Training	B	A variety of customized training was provided to our clients in the past 9 months
Web Services	B+	Maintained 6,523 pages for (Education) Department's web site compared to 3,000 pages last year - a 54% increase
	B+	33% increase in hosting web sites
Audio Conferencing	A	33% of total port minutes over 98-99
Video Conferencing	B	Provided 30.5 hours of video conferencing
Satellite Service	N/A	Uplink service ceased; Downlink continues to be available
Information on Technology Trends, etc.	B+	Researched numerous technology solutions. Newsletter, listservs, Agency's web site was distributed to the education community
External Communication	B+	12% increase in circulation of the MERLIN Newsletter; attended targeted number of trade shows; continued with presentations to government and the education community

101-00256/

Advisory Board

MERLIN's Advisory Board offers advice and direction on short and long term planning, reporting on issues of concern to our clients and stakeholders. Significant changes were made to the structure and make-up of the Board to allow for a more balanced education/industry perspective.

The Minister of Education and Training appoints the Advisory Board. The composition of the Board may change over time as circumstances warrant.

WILLIAM SCHAFFER
Acting Chair
SWAN VALLEY
SCHOOL DIVISION NO.35

KEN WEBB
Representative for Colleges/Universities
VICE-PRESIDENT, ACADEMIC
RED RIVER COLLEGE

BOB BELL
Representative for South west Consortium
ANTLER RIVER SCHOOL
DIVISION NO.43

DAN KERR
Chief Operating Officer

MERRILL SHULMAN
INTEGRATED MESSAGING INC.

FRED MCGUINNESS
Consultant

LEO LETOURNEAU
Representative for Dept of Ed and Training
EXECUTIVE DIRECTOR,
COUNCIL ON POST-SECONDARY EDUCATION

COLETTE LAFOND-D'HEILLY
M.E.R.L.I.N. Staff Representative

The Advisory Board meets on a regular basis to review financial reports and business plans.

Agency Profile

BACKGROUND

This report outlines the activities and outcomes of the Manitoba Education Research and Learning Information Networks (MERLIN) Special Operating Agency in its fifth year of operations for the period from July 1st, 1999 to March 31, 2000.

Technology plays a significant role in the delivery of education across the province. Over the past year, investments in technology by the education community have grown $910,494. The Agency plays an important support role in the use of technology for education. MERLIN delivers and adjusts its services to meet the needs of the education community. We have been challenged to build its reputation of credibility, quality service and expertise in the technology area.

MERLIN has positioned itself to be a leader in identifying and delivering specialized technical services to the education community at a reasonable cost. We work with education, government and industry to bring solutions and services that will enhance their ability to use technology effectively.

The Agency has its main office in Winnipeg. A regional office is located in Brandon serving the K-S4 and Post-Secondary sectors of the education community in rural Manitoba.

MISSION

To deliver, support and promote the use of technology and technology infrastructures that enables the delivery of quality education and training for all Manitobans.

MANDATE

- To provide direction and management in the educational use of networks, acting as a broker of services to meet customer needs;
- To provide services that support educational institutions (K-S4 and Post-Secondary) in the application of technology tools to enhance and expand program delivery;
- To identify opportunities for economic development resulting from the use of technology in education and training environments in partnership with the private sector and economic development agencies.

GOALS AND OBJECTIVES

Our primary goal is to serve the education community. As part of that goal, cost-effective, value added services must be provided and continue to be developed that meet the changing and varied needs of our clients. Strategic alliances and partnerships are continually pursued with the private sector to complement the Agency's service offerings, including professional development and technical and systems support. Such agreements allow the educational community to benefit from reduced costs and better service.

Agency Profile

The long-term goals of the Agency are to:

- Foster growth in the use of technology in the education sector so that Manitoba's students benefit from access to the tools and knowledge they will need to succeed in the global information economy.
- Be recognized as a leader in the information technology field, including the use and management of networks, software and systems and be seen as the information technology provider of choice for the education community.
- Become a Centre of Innovation, supporting the needs of the education community in Manitoba.
- Promote the use of products developed by education in Manitoba for use in other jurisdictions.
- Ensure that technology choices being made by education integrate with existing and developing infrastructures.
- Support the education reform initiatives of the government.
- Ensure that MERLIN's services are cost-recoverable and the Agency becomes self-sustaining.

The short-term goals of the Agency are to:

- Be client-focussed in the delivery of our products, services and information
- Continue to modify our inventory of services to ensure that we meet the needs of the education community.
- Deliver value-added services at a reasonable cost.
- Expand the client-base of the Agency.
- Be identified as the Provincial Government's video and audio conferencing service provider.
- Develop the flexibility needed within the organization to allow it to react quickly and effectively to the needs of clients.
- Support and comply with the principles of The Sustainable Development Act
- Promote the Agency's services to assist other organizations to achieve their sustainable development goals.

CRITICAL SUCCESS FACTORS

The Agency conducts on-going evaluations of its performance to ensure that it is meeting the needs of its clients against a set of critical success factors. These include:

- Providing high quality, value-added, client-focused services.
- Providing cost savings to the education community in the acquisition of technology systems.
- Facilitating access to networks and high quality services by the education community.
- Providing information and research on information technologies to support decisions and programs of the Department of Education and Training and the education community.
- Supporting open compatibility and interconnectability of systems internally, within the province, and externally with other jurisdictions.
- The effective use of private sector resources in providing products and services to meet the needs of the education community.
- Generating and maintaining an awareness of MERLIN's services and capabilities.
- Maintaining and improving internal processes and standards on an on-going basis to ensure the effectiveness and efficiency of the Agency in meeting the needs of our clients.
- Meeting the financial/service projections of our business plan.

ADVANTAGES / BENEFITS OF A SPECIAL OPERATING AGENCY SERVING THE EDUCATION COMMUNITY

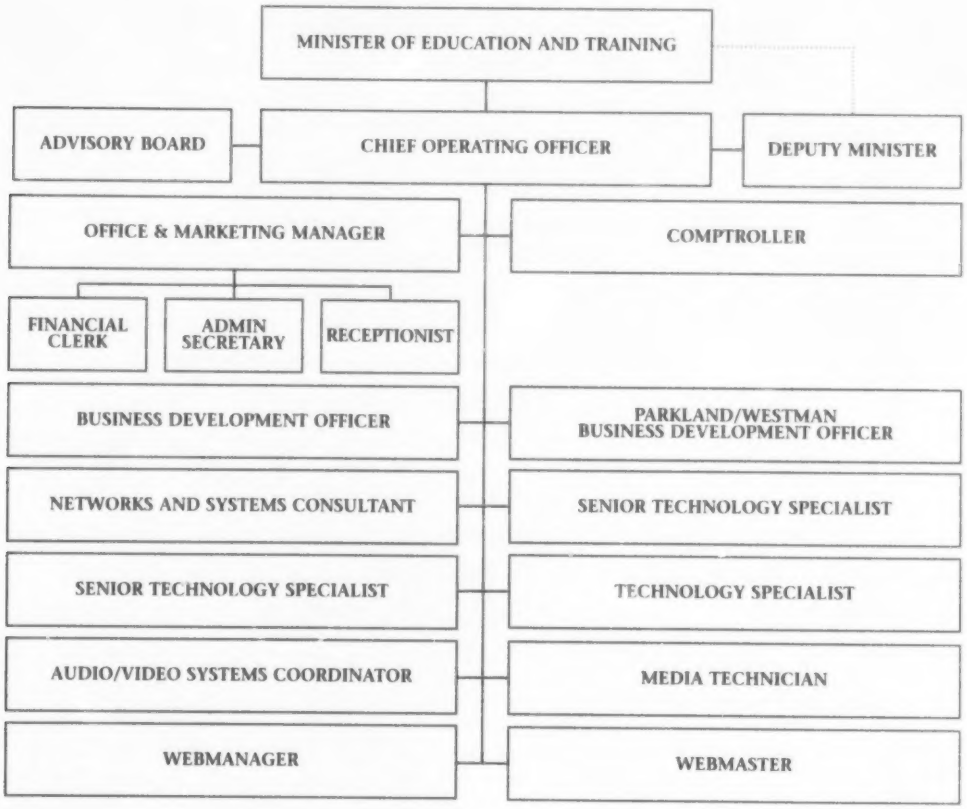
- *Focus on education – matching technology and solutions to the education environment.*
- *Cost-savings in procurement of hardware and software through negotiations with industry for academic pricing;*
- *Central coordinating body for technology in the education field – a "one-stop shop";*
- *Expertise – Staff have in-depth knowledge in various technologies;*
- *Unbiased advice as the Agency looks at its clients' best interests;*
- *Enhanced communications with the use of our audio / video conferencing for training and/or administrative purposes;*
- *Value-added cost-effective services;*
- *Abreast of new technologies;*
- *Representation on various national technology workgroups and provincial committees / councils positions the Agency as an information source to clients.*

Organizational Structure

The MERLIN Team consists of 12 permanent staff years plus a number of term and contract employees. We must be dynamic to respond to the rapid changes that technology brings.

The Management Team consists of the Chief Operating Officer, the Comptroller and the Office/Marketing Manager.

Entrepreneurship, multi-year planning, customer focus, cost-effectiveness, efficiency and accountability are all components of our operating status. We continue to maintain and build relationships with other organizations and industry to identify areas of possible collaboration and brokering. The Agency should be viewed as a point of entry for Information Technologies for the education community.



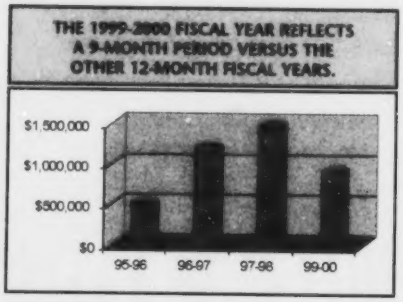
Performance Measures

PERFORMANCE REVIEW

The 1999-2000 fiscal year has delivered numerous benefits to the education community. Overall, savings to education reflect a total of $910,494. This is a substantial amount noting that this occurred during a 9-month period versus the normal 12-months. The shortened fiscal year was due to a change in our year end from June 30 to March 31st.

Staff have focused on improving services to meet the needs of our education clients to customize and provide enhancements as needed. To the greatest degree possible, MERLIN has been flexible and adaptable to meet expectations.

The Agency has contributed the following services to its client base:

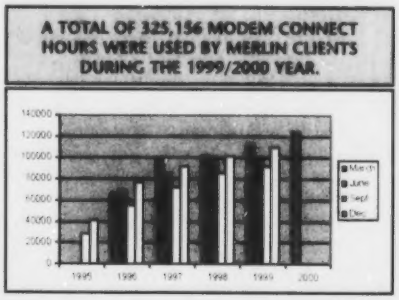


- Staff at the Agency have been invited to attend and speak at many major education events during the year. In addition, staff participate on a number of advisory groups such as Computers for Schools, Community Access Program, MIITA, Manitoba Innovation Network (MIN) and the Department's Network Use Team (NUT). We are active participants at regional consortium meetings throughout the province and with the Computer Education Coordinators of Manitoba.
- Calls to the Agency's Help Line for free technical support continue to be widely used by Agency clients. Approximately 2,050 calls were handled on issues from Internet access to network and computer hardware issues.
- An Internet Listserv automatically provides technology tips to subscribers.
- A Manitoba School Email Network (MSEN) allows for the electronic distribution of information to most schools in the province. This reduces the cost of mailing and significantly improves the efficiency of distributing information. These accounts are provided at no charge. Access is customized to meet the needs of schools. MSEN accounts have provided approximately $12,000 in Internet account savings.
- MERLIN has contributed staff resources to the Manitoba Learning Network to assist school divisions by managing maintenance agreements. A User Group has been implemented to troubleshoot problems and share information.
- MERLIN also provides free client support to the networks for direct connects.

Performance Targets and Accomplishments

1 To provide a wide array of services that meet the needs of the education community

- Services offered at competitive rates.
- Greater access by education to obtain network and technology services.
- Flexible and adaptable services to meet the needs of the client.
- Credible, professional, unbiased information and support.
- Video conference networks established and managed efficiently.

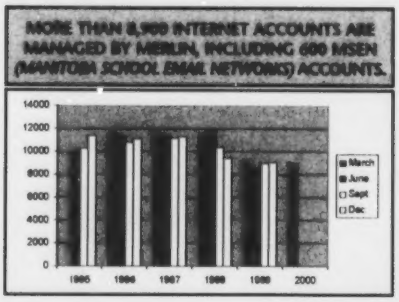


INTERNET

Modem Connect Time – Since our inception, modem connect time has increased in every billing period when compared to the previous year. This year's connect time has increased by 10% over the past year.

In addition, the Agency has provided support to users through help lines. This has seen over 2,050 requests in the past year. This service is provided at no cost to clients. As well, we have provided a significant amount of consulting services and technology solutions for school divisions on the various options available to them to connect to the Internet.

Interestingly, we have fewer MINET accounts today than when MERLIN was created. Our accounts peaked in June 1998. However, we are not losing the users who are dialing into our modem pool. The decrease is due to school divisions running their own email server in both rural and urban divisions.



MERLIN continues to be a leader in bringing high speed direct connect access to school divisions through agreements and arrangements with industry. This environment is changing rapidly and the market is providing faster speeds at lower costs.

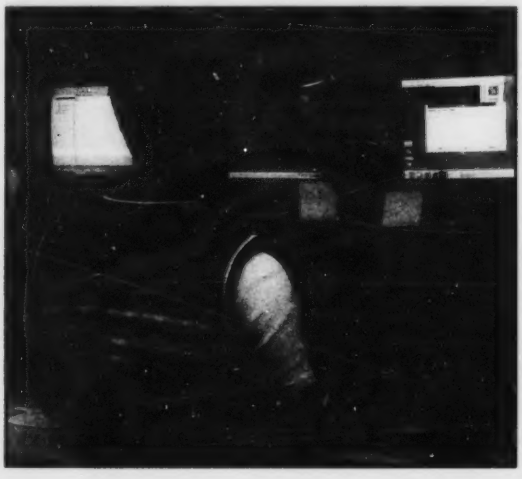
SAVINGS TO EDUCATION: $378,565

Performance Targets and Accomplishments

NETWORK AND TECHNICAL CONSULTING SERVICES / BROKERING

This service continues to grow as the Agency establishes its reputation of delivering high quality, professional technical and consulting services. Numerous projects were completed for the Year 2000. No major problems were found at schools. Investments in training have been made to keep staff at the leading edge of technology. This has resulted in the Agency being able to provide "end-to-end" solutions to schools and post-secondary institutions. This includes the design, provision of equipment, cabling, servers, installation and set-up configuration of local and wide area networks using various technologies, firewall and Internet caching. Partnerships with industry have allowed us to provide these solutions at significant cost savings to the education community.

Savings of approximately $15,000 were realized through the brokering of telecommunication routers. We successfully renegotiated our Agreement with Cisco Systems Canada for discounts for education.



Further savings to education occur as we continue to negotiate a number of special offers by software companies including Microsoft, Corel, PowerQuest, Novell and MediaSmith. It is estimated that schools and Post-Secondary institutions saved over $75,000 by purchasing through MERLIN. The Agency has established itself as an expert in the understanding of various software licensing arrangements.

SAVINGS TO EDUCATION: $306,868

Performance Targets and Accomplishments

TRAINING

The Agency has been active in the delivery of various technical training. We exceeded our target goal for the delivery of training by providing the following:

- Internet workshop;
- Multimedia training workshops;
- Netware and GroupWise;
- Tables and formatting in MS Word and
- A MediaSmith workshop at Special Area Groups (SAG).

SAVINGS TO EDUCATION: $30,330

WEB SERVICES

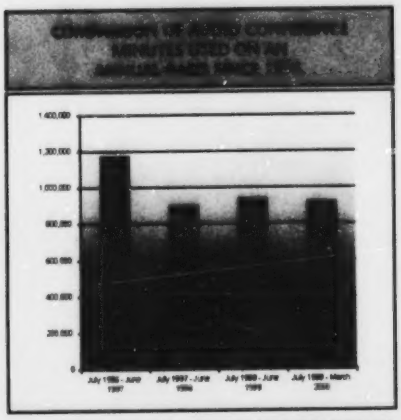
Web hosting has increased by 33% from last year's statistics. The Agency manages an Internet web server that is used by a number of school divisions as well as the Department of Education and Training's web site.

SAVINGS TO EDUCATION: $10,080

Performance Targets and Accomplishments

AUDIO / VIDEO CONFERENCING / SATELLITE SERVICES

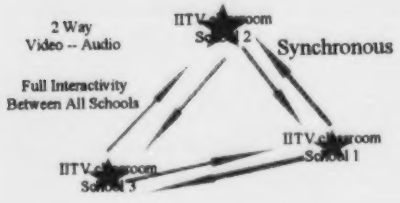
Audio and video conferencing services have far exceeded our projections. This is due to major new clients in both education and government. We have increased our audio conference port minute usage by 33% over the equivalent July - March period of the previous year. As well, there has been a 14% increase in our port minute usage over the estimates calculated for the July - March period for the current year. Negotiations with the Department of Government Services have now positioned MERLIN as the audio conference provider of choice for the Manitoba Government.



NOTE: 1997-THE FIRST YEAR BY DISTANCE EDUCATION PROGRAM (FYDE - NOW CAMPUS MANITOBA) BEGAN TO MIGRATE THEIR CLASSES FROM OUR AUDIO CONFERENCE BRIDGE TO WEB-BASED DELIVERY, COMPLETING THE MIGRATION OF OVER 400,000 PORT MINUTES BY JUNE 1998.

Greater access to video conferencing (Instructional Interactive Television- IITV) has increased accessibility of program delivery in rural areas. It is now possible to connect via dial-up video conference between educational sites such as Arborg Collegiate, Gimli Composite High School, Riverton High School, Steinbach Regional Secondary School, Swan Valley Regional Secondary School and R.D. Parker Collegiate in Thompson. Some sites have the capability to send programs to the schools within their divisions via a microwave cluster system.

VIDEO CONFERENCING CONTRIBUTES TO LOWER TRAVEL COSTS, HIGHER PRODUCTIVITY AND OVERALL COST-SAVINGS.



MERLIN also manages the IITV Network, which encompasses a coordinating role in overseeing maintenance contracts. The creation of a User Group for IITV users has contributed to a communication forum for information sharing, problems solving and troubleshooting.

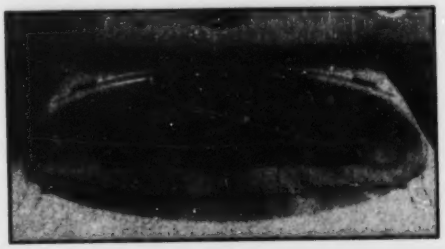
SAVINGS TO EDUCATION: $184,651.48

Performance Targets and Accomplishments

INFORMATION ON TECHNOLOGY TRENDS, NEW PRODUCTS AND EVALUATIONS

Information has been provided through the use of listservs, educational events and Help Line services. This has brought significant value to the education community.

Ongoing research is essential to maintaining MERLIN's high level of expertise. It is one component that contributes to MERLIN's value-added services.



Training and research were done in the following areas: Web-based educational platforms; Novell Zenworks; Multimedia Training; Netware 5 and distance education issues and initiatives.

2 External Communication: Marketing and Promotion

To generate an awareness of the Agency's services and capabilities to existing and potential new clients.

The past fiscal year has seen favorable results from the implementation of our external communications plan:

- Audio and video conferencing services have expanded as a result of presentations to government departments.
- Our participation in major educational trade shows has displayed MERLIN's presence to stakeholders and clients. We exceeded our target of attending trade shows for the year.
- Updates to our web page, enhancing promotional literature, distribution of quarterly newsletters and promotional items have been tools to highlight our capabilities and services to current, new and potential clients.
- The planning of several events, demonstrations and presentations has provided information that is valuable in assisting clients in their decision-making.
- We contacted 100% of the school divisions in the Westman, Parklands and South Central Regions of the Province. However, since one Business Development Officer position was vacant for six months, we were unable to attain our target in other areas of the province. We regularly attend the Computers Education Coordinators of Manitoba (CECM) and Consortia meetings.
- The Chief Operating Officer, Business Development Officers and the Office/Marketing Manager play a major part in the implementation of our marketing strategies. However, all staff play a role in marketing and providing customer service to clients.

Performance Targets and Accomplishments

3 Internal Communication/Organization

To maintain and improve internal processes on an ongoing basis to ensure the effectiveness and efficiency of the Agency in meeting the needs of its internal and external clients.

Management and staff have adopted a "Continuous Improvement" philosophy. Our accomplishments in this area include:

- The integration of our Internet billing database to our finance system has made a significant impact on expediting invoices to our clients. It has streamlined internal financial processes.
- MERLIN has increased its efficiency by redesigning its Chart of Accounts thus enhancing our reporting capabilities.
- An investment was made in our financial system to add sales order, purchase order, and integration modules. This will further improve processes once implementation occurs in the new fiscal year.

MERLIN believes that a team approach is important in reaching our organizational goals.

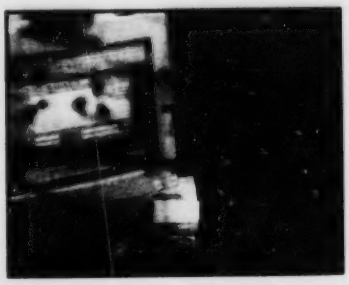
Weekly staff meetings are communication avenues for sharing information.

4 To provide services that reflect a customer service focus and need.

Services meet the expected timelines of the client

High quality, value added, client-focused services provided

MERLIN has designed several databases to monitor customer satisfaction:



- Follow-up on goods and services sold
- Customer satisfaction (complaints and positive feedback received)

The information compiled forms a basis of analysis portraying how clients view the quality, timeliness and overall feedback on our service delivery.

Customer service standards are monitored and captured in monthly reports.

Performance Targets and Accomplishments

5 Integrate sustainable development principles into the decision-making and day-to-day operations of the Agency.

The Agency continues to be conscientious of using sustainable development principles. A paper-recycling program has been implemented in the past year.

We continue to make potential and existing clients aware that our services, specifically our audio and video conferencing, are excellent tools that can contribute to their sustainable development goals.

MARKETS

Industry / sector trends

As our knowledge-based economy continues to expand, Manitobans have been faced with new economic realities. MERLIN assists educational institutions in preparing Manitobans for the challenges that this evolution presents.

The following have been identified as requirement to prepare Manitobans for the future:

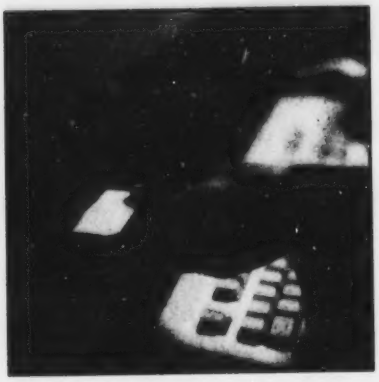
- Access to educational services from anywhere in the province
- Support of small schools and rural community development
- Access to lifelong learning opportunities
- Technology to play a role in labor force development and support to entrepreneurs
- Sharing of essential resources and materials
- Electronic highway as a notable agent of change

MERLIN supports lifelong learning by providing access to educational services that allow flexibility of time and location. With experience in the development of distance delivery options and the use of communications and information technology, our Agency is well-positioned to serve the education and training requirements of Manitobans.

Performance Targets and Accomplishments

Market Definition

The market segments for MERLIN represent the following:



- 56 school divisions (representing 717 schools)
- 7 Post-Secondary institutions
- 94 Independent schools
- Band operated schools
- Adult Learners
- The Department of Education and Training
- Government Departments
- Non-profit and other organizations

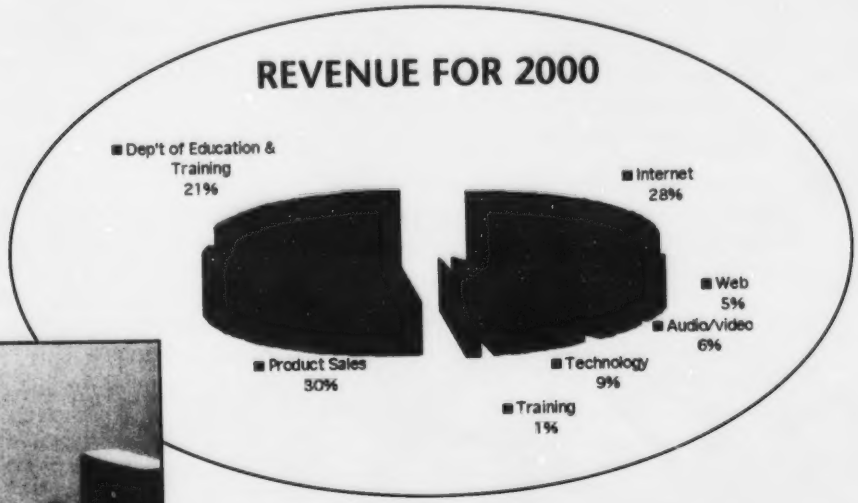
While MERLIN does not have a monopoly for its services within the province, we do have a unique understanding of the technology requirements of the education community. Private computer dealers, telecommunication carriers and consultants also provide some services that overlap those of MERLIN. In areas of overlap, we attempt to foster cooperative relations with industry to benefit the education community.

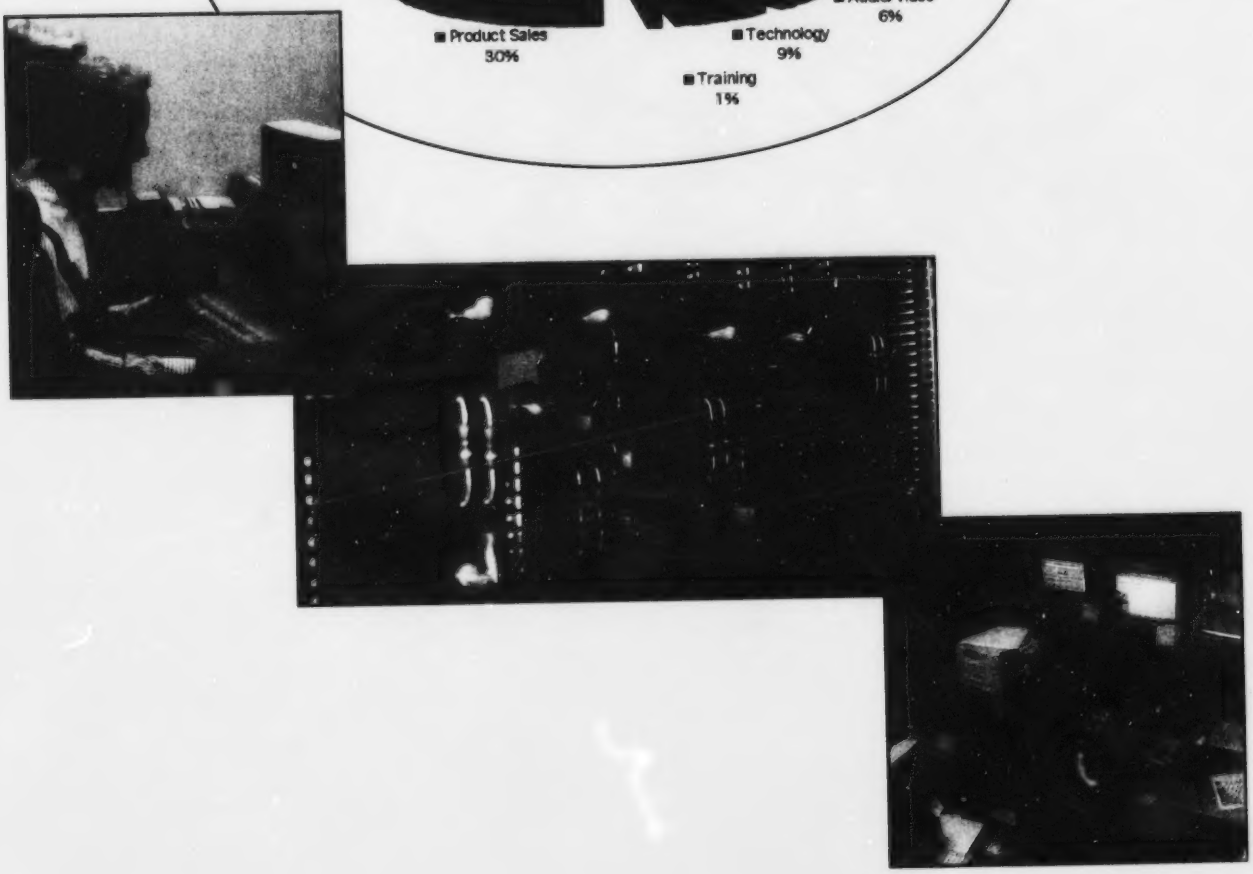
FUTURE OUTLOOK

As part of MERLIN completing its first five years of operation, it is currently undergoing an Effectiveness Evaluation. Results and recommendations from this evaluation will result in a Strategic Plan for future directions.

MERLIN continues to be a leader in Internet services for school divisions through agreements and arrangements with industry. The environment is changing and the market is providing faster speeds at lower costs. Our role will be changing in some cases from providing the Internet direct connect service to consulting and implementing solutions for our clients using broadband technologies (such as fibre, cable modems, DSL). We partner with service providers where appropriate, as we want to seek out the best solution for our clients. This will allow MERLIN to focus resources on core Internet services.

Financial Statement Analysis





Responsibility for Financial Reporting

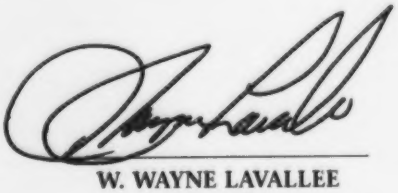
The accompanying financial statements are the responsibility of the Management of Manitoba Education, Research and Learning Information Networks (MERLIN) and have been prepared in accordance with generally accepted accounting principles. In Management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating Management's best judgement regarding all necessary estimates and all other data available up to June 14, 2000.

Management maintains internal controls to properly safeguard MERLIN's assets. These controls also provide reasonable assurance that the books and records from which financial statements are derived accurately reflect all transactions, and that established policies and procedures are followed.

The Auditors' responsibility is to express an independent opinion on whether the financial statements of MERLIN are fairly presented in accordance with generally accepted accounting principles. The Auditor's report outlines the scope of the audit examination and provides an audit opinion.

On behalf of Management,

DANIEL R. KERR
Chief Operating Officer



W. WAYNE LAVALLEE
Comptroller

Manitoba Education, Research and Learning Information Networks (MERLIN)
June 14, 2000

Financial Statements – Year ended March 31, 2000

Sill & Company
Chartered Accountants

AUDITORS' REPORT

TO THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY:

We have audited the balance sheet of **MANITOBA EDUCATION, RESEARCH AND LEARNING INFORMATION NETWORKS (MERLIN)**, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at **MARCH 31, 2000** and the statements of income and deficit, and cash flows for the period then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at **MARCH 31, 2000**, and the results of its operations and cash flows for the period then ended in accordance with generally accepted accounting principles.

The comparative figures for the year ended June 30, 1999 were reported on by other auditors.

Winnipeg, Manitoba
June 14, 2000

Sill + Company

CHARTERED ACCOUNTANTS

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inquiries@sill.ca www.sill.ca

Thomas Sill C.A. (1927-1986) Founder

Partners
W.D. Bodman C.A.
K.W. Grower F.C.A.
S.G. Andrew C.A.
F.A. Wiebe C.A.
N.F. [illegible] C.A.
W.W. Findlater C.A.
R.J. Martens C.A.
T.R. McKim F.C.A.
D.L. Anderson C.A.
A.A. DeVlieger C.A.
R.W. Westfall C.A.
G.J. Meger C.A.
M.J. Mills C.A.
D.J. Einarson C.A.
R.A. Lawrence C.A.

Consultants
N. Fiske F.C.A.
R. Fäuk F.C.A.
K.M. McLean C.A.
M.A. Maleszkewicz F.C.A.

Financial Statements – Year ended March 31, 2000

BALANCE SHEET
(in thousands of dollars)

	March 31, 2000	June 30, 1999
ASSETS		
CURRENT		
Accounts receivable *(note 3)*	$ 1,041	$ 2,941
Prepaid expenses	4	5
	1,045	2,946
RESTRICTED SHORT-TERM DEPOSITS *(note 4)*	138	–
RECEIVABLE FROM THE PROVINCE OF MANITOBA *(note 5)*	46	46
CAPITAL ASSETS *(notes 2 and 6)*	187	206
	$ 1,416	$ 3,198
LIABILITIES		
CURRENT		
Working capital advances *(note 7)*	679	2,331
Accounts payable and accrued expenses	600	1,029
Accrued vacation entitlements *(note 8)*	72	60
Unearned revenue	79	55
Trust liabilities *(note 9)*	100	–
Current portion of long-term debt	–	12
	1,530	3,487
EMPLOYEE PENSION BENEFITS *(note 10)*	181	111
SEVERANCE PAY LIABILITY *(note 11)*	39	34
	1,750	3,632
COMMITMENTS *(note 14)*		
EQUITY		
DEFICIT	(334)	(434)
	$ 1,416	$ 3,198

Financial Statements – Year ended March 31, 2000

STATEMENT OF INCOME AND DEFICIT

(in thousands of dollars)

	March 31, 2000	June 30, 1999
REVENUE		
Audio and video delivery	$ 104	$ 94
Department of Education and Training *(note 12)*	385	513
Internet delivery, installation and technology planning	1,258	1,540
Training	18	16
Webmaster services	84	73
	1,849	2,236
EXPENSES		
Administrative *(page 32)*	159	201
Allocation to Campus Manitoba	36	48
Audio and video delivery	48	54
Bad debts	15	32
Interest	16	99
Internet access and support	863	1,052
Marketing	3	17
Salaries and employee benefits	629	737
Travel	20	36
Training delivery	3	8
Satellite expenses (recovery)	(43)	43
	1,749	2,327
INCOME (LOSS) BEFORE CANADA-MANITOBA INFRASTUCTURE WORKS PROJECT	100	(91)
CANADA-MANITOBA INFRASTRUCTURE WORKS PROJECT *(note 13)*		
Revenue	–	3,738
Project expenditures	–	3,738
	–	–
NET INCOME (LOSS) FOR PERIOD	100	(91)
DEFICIT – BEGINNING OF PERIOD	(434)	(343)
DEFICIT – END OF PERIOD *(page 22)*	$ (334)	$ (434)

STATEMENT OF CASH FLOWS

(in thousands of dollars)

	March 31, 2000	June 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for period	$ 100	$ (91)
Adjustment for Amortization	46	44
	146	(47)
Changes in non-cash working capital		
Accounts receivable	1,900	(172)
Prepaid expenses	1	3
Accounts payable and accrued expenses	(429)	563
Accrued vacation entitlements	12	–
Trust fund liability	100	–
Pension liability	70	36
Severance pay liability	5	8
Unearned revenue	24	53
	1,683	491
	1,829	444
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(27)	(154)
Transfer to restricted short-term deposits	(138)	–
	(165)	(154)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(12)	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,652	290
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	(2,331)	(2,621)
CASH AND CASH EQUIVALENTS – END OF PERIOD	$ (679)	$ (2,331)

Notes to Financial Statements – Year ended March 31, 2000

1 NATURE OF ORGANIZATION

Effective April 1, 1995, Manitoba Education, Research and Learning Information Networks (MERLIN) was designated as a Special Operating Agency pursuant to The Special Operating Agencies Financing Authority Act, Cap S185, C.C.S.M. and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business like manner according to public policy expectations.

A Management Agreement between SOAFA and the Minister of Education and Training assigns responsibility to the Agency to manage and account for the Agency related assets and operations on behalf of SOAFA.

The Agency continues to be part of Manitoba Education and Training under the general and policy direction of the Minister.

The Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

The Agency is economically dependent on the Province of Manitoba as it derives much of its revenue and all of its financing requirements from the Province.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting
The financial statements of the Agency are presented in accordance with generally accepted accounting principles.

Capital Assets
Capital assets are recorded at cost and are amortized annually on a straight-line basis as follows:

Computer hardware	- 20%
Computer software	- 20%
Equipment and furniture	- 20%

In the period of acquisition, amortization is calculated at one-half the rate indicated.

Notes to Financial Statements – Year ended March 31, 2000

3 RECEIVABLES

	March 31, 2000	June 30, 1999
Trade and other	$ 510	$ 579
Department of Education and Training	–	147
Canada-Manitoba Infrastructure Works Project	602	2,271
	1,112	2,997
Allowance for doubtful accounts	71	56
	$ 1,041	$ 2,941

4 RESTRICTED SHORT-TERM DEPOSITS

The Agency maintains separate short-term deposits with The Province of Manitoba to fund liabilities arising from Employee Pension Benefits *(note 10)*.

5 RECEIVABLE FROM THE PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is for vacation entitlements earned by the employees of the Agency prior to designation as a Special Operating Agency and for severance pay benefits prior to March 31, 1998. The balance is comprised of:

	March 31, 2000	June 30, 1999
Vacation entitlements	$ 19	$ 19
Severance pay benefits	27	27
	$ 46	$ 46

Notes to Financial Statements – Year ended March 31, 2000

6 CAPITAL ASSETS

	March 31, 2000		June 30, 1999	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware	$ 160	$ 76	$ 147	$ 53
Computer software	57	20	46	13
Equipment and furniture	106	40	103	24
	323	136	296	90
Cost less accumulated amortization		$ 187		$ 206

7 WORKING CAPITAL ADVANCES

These advances are provided to the Agency through the Special Operating Agencies Financing Authority pursuant to the Management Agreement. The Agency's authorized line of working capital advances of $2.0 million was increased to $4.0 million to accommodate cash flow requirements from the Canada-Manitoba Infrastructure Works Project. This increase ended April 1, 2000.

Interest of $57 was accrued but not paid during the year, resulting in a cash flow of $Nil for the period.

8 ACCRUED VACATION ENTITLEMENTS

The Agency follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1998. The liability at this date is offset by a receivable from the Province and was $19 as at March 31, 1998. Any subsequent changes to the entitlement are reflected as a current year expense to the Agency. As at March 31, 2000 there was an increase to the entitlement in the amount of $12. At the end of the fiscal year 1999/2000 the accrued vacation entitlement was $72.

Notes to Financial Statements – Year ended March 31, 2000

9 TRUST LIABILITIES

Campus Manitoba	$ 34
Grassroots Internet	66
	$ 100

During the current fiscal year the Agency entered into an agreement with Industry Canada to operate a Grassroots Internet project for both Manitoba and Canadian Schools. The balance in the account represents funds paid to the Agency but not yet disbursed to the schools.

10 EMPLOYEE PENSION BENEFITS

Employees of the Agency are eligible for pension benefits in accordance with the provisions of The Civil Service Superannuation Act. In accordance with an agreement with the Province of Manitoba, Special Operating Agencies (SOA's) are only responsible for the pension liability incurred for their employees from the date of designation as an SOA. The methodology for calculating the liability has been determined in conjunction with the Province, which accepts responsibility for pension liability for prior service as well as any variance resulting from the calculation.

A decision has been made that for the time being, SOA's will not be funded/matching employers for their pension obligation. Instead, each SOA will arrange with the Treasury Division the establishment of a separate investment account for pension-related funds. The Agency deposited on a quarterly basis, in this account the estimated amount of the current pension liability as advised by Finances. At the end of each fiscal year, the balance in the investment account will be adjusted to reflect the revised pension liability recorded at that date. The Agency is assuming an 8% interest rate as per the actuarial interest projection provided by Finance.

Notes to Financial Statements – Year ended March 31, 2000

11 SEVERANCE PAY LIABILITY

Effective July 1, 1998, the Agency is recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at July 1, 1998 of $26 was offset by a receivable from the Province. There are no terms of repayment for this receivable, and the amount will remain fixed at $26. Any subsequent change in the severance pay liability will be recorded as an expense to the Agency. As at March 31, 2000, there was an increase to the liability in the amount of $7. At the end of the fiscal period, the severance pay liability was $41.

12 REVENUE - DEPARTMENT OF EDUCATION AND TRAINING

The Agency is responsible for the delivery of distance education and technology programs formerly provided through the Department of Education and Training. The Agency receives a fee from the Department, established annually and paid quarterly, in exchange for delivery of these services.

Notes to Financial Statements – Year ended March 31, 2000

13 CANADA-MANITOBA INFRASTRUCTURE WORKS PROJECT

This project was designed to provide the infrastructure for improved access to courses, resources and support to rural, remote and off campus students.

The Agency signed a memorandum of understanding under the Canada-Manitoba Infrastructure Works Program which will provide for funding equal to approximately two thirds of the project expenditures. The balance of project expenditures are recovered from participating educational institutions or charged to Agency operations, depending on the nature of the expenditure.

14 YEAR 2000 COMPLIANCE

The Agency leases office space and certain equipment under long-term leases which expire at various dates. The future minimum payments required under these leases over the next two fiscal years are:

2001	$ 49
2002	24

15 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

Notes to Financial Statements – Year ended March 31, 2000

16 COMPARATIVE FIGURES

Certain of the comparative figures for the year ended June 30, 1999 have been reclassified to provide better comparison with the current year's presentation.

17 CHANGE OF FISCAL YEAR END

During the current period, the Agency changed its fiscal year end to March 31 from June 30 to coincide with the year end of the Special Operating Agencies Financing Authority and the Province of Manitoba. Accordingly, the results of operations are for the nine months ended March 31, 2000 with comparative figures for the twelve months ended June 30, 1999.

Notes to Financial Statements – Year ended March 31, 2000

SCHEDULE OF ADMINISTRATIVE EXPENSES
(in thousands of dollars)

	March 31, 2000	June 30, 1999
Amortization	$ 34	$ 44
Hospitality	1	1
Occupancy	25	34
Office equipment leases	10	36
Office and sundry	52	36
Professional fees	6	17
Staff training	14	11
Telephone	17	22
	$ 159	$ 201

SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE

EMPLOYEE	TITLE	COMPENSATION
Dan Kerr	Chief Operating Officer	$ 57
Patrick Hoger	Senior Technology Specialist	51

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum.

Client Survey Summary

To obtain feedback from our clients, a survey was mailed out to our clients in March 2000.

Respondents were asked to rate each M.E.R.L.I.N. service area on a 5-point scale for the following items:

- Responsiveness to questions/requests
- Timeliness of service
- Quality of service
- Competitively priced.

OVERALL SATISFACTION WITH SERVICE AREAS (%)

Audio Conferencing	***94%***
Responsiveness to questions/requests	93%
Timeliness of service	93%
Quality of service	95%
Competitively priced	96%
Video Conferencing	***88%***
Responsiveness to questions/requests	88%
Timeliness of service	91%
Quality of service	89%
Competitively priced	83%
Equipment Tendering	***85%***
Responsiveness to questions/requests	87%
Timeliness of service	82%
Quality of service	84%
Competitively priced	88%
Equipment Bulk Purchase/Brokering	***83%***
Responsiveness to questions/requests	81%
Timeliness of service	79%
Quality of service	85%
Competitively priced	89%
Contracted Training	***76%***
Responsiveness to questions/requests	75%
Timeliness of service	75%
Quality of service	80%
Competitively priced	72%
Internet Access	***88%***
Responsiveness to questions/requests	89%
Timeliness of service	86%
Quality of service	86%
Competitively priced	92%

Consulting - Internet	***89%***
Responsiveness to questions/requests	89%
Timeliness of service	87%
Quality of service	90%
Competitively priced	90%
Consulting – Networks	***94%***
Responsiveness to questions/requests	96%
Timeliness of service	94%
Quality of service	95%
Competitively priced	92%
Help Line Support	***93%***
Responsiveness to questions/requests	93%
Timeliness of service	92%
Quality of service	93%
Competitively priced	93%
Home Page Creation/Maintenance	***83%***
Responsiveness to questions/requests	91%
Timeliness of service	84%
Quality of service	86%
Competitively priced	71%
Internet Account Creation/ Maintenance	***86%***
Responsiveness to questions/requests	86%
Timeliness of service	84%
Quality of service	86%
Competitively priced	88%